

Talking Points  
January 18, 2006

There has been a lot of discussion over the past few days about Senate Bill 2310, which proposes to eliminate the sales tax on groceries and increase the tax on cigarettes. Despite the initial claims that this proposal is simple and revenue neutral, this bill in fact shortchanges our towns and cities which are already strapped in post-Katrina times and destroys our ability to increase needed funding for education in the future.

The bill will result in a \$1.5 billion loss of revenue to the state over nine years (an average loss of nearly \$170 million per year); will cut sales tax revenues to municipalities by \$166 million over nine years; and inevitably lead to lower funding for education and basic services as well as to tax increases, ranging from municipal ad valorem taxes to sales taxes on products other than groceries to higher income taxes. It would be irresponsible in this period of uncertainty caused by Katrina to reduce state tax revenues. We need more funds for education and other priorities, not reductions. It is even more irresponsible to cut sales tax revenues for municipalities, because many have had their tax bases wiped out. The package was rushed through in such haste that there was not enough time for

the figures given to the legislature to be properly researched, and many not only proved to be wrong but were admitted to be wrong during the process.

*An Irresponsible Proposal in an Uncertain Time*

- At a time when the state fiscal situation is murky at best, and the state and federal governments are loaning money to local governments to keep them afloat, it is irresponsible to set up a new scheme to change how state and local governments are financed.
- This is not a “revenue neutral” proposal. The new structure seeks to replace the sales tax on groceries, which would generate more revenue over time for cities and towns, with an increase in the tax on tobacco, which will generate less revenue over time. Any increased revenue from a higher tax on tobacco will not come close to offsetting the decreased revenue from reducing the grocery tax.
- Since the cities and the state split the revenue from the grocery tax, this will be devastating to both the State budget and to towns which

depend on those funds to maintain basic functions of government, such as fire and police protection.

*This Would Blow a New Hole in the State Budget Just as We Had Plugged the Old One*

- Just two years ago, the state had a more than \$700 million budget hole. As the state dug out of that hole, higher education was cut, and some have argued that K-12 spending increases were not enough. Just as we had almost gotten back to a balanced budget, Katrina struck, leaving much uncertainty about its impact on tax revenues and future budget needs as South Mississippi is rebuilt. In the midst of this uncertainty, SB 2310 commits the state to a scheme which will reduce state revenue by more than \$1.5 billion over the next 9 years of implementing the legislation.
- Such a large reduction in general fund revenue will make it impossible to restore the cuts to higher education and give even larger increases to K-12 education.

- While the revenue will go away, the appetite for spending will not. Eliminating the grocery tax will lead to calls in the future to raise other taxes.

*A Tax Scheme that will Make it Harder for Cities to Provide Basic Services*

- The legislation takes away the anticipated and historical growth in revenue by capping the refund to cities at what they receive currently. When a historical rate of growth is applied, municipalities will lose an estimated \$166 million in future revenue over nine years as the legislation is implemented. At that point, cities will be losing more than \$40 million a year.
- This scheme will especially hurt the smaller towns, where grocery sales are a greater portion of their total sales tax revenue.
- To make up the lost revenue, cities will likely raise property taxes.

## Legislators did Not have All the Information about the Potential Impact of this Proposal

*A greater hit on cities and the State Budget than was thought...*

- When Legislators voted for this proposal, they were told that cities and towns were protected from a loss of revenue. However, according to the Mississippi Tax Commission, the original estimate of the amount of grocery tax collected in municipalities was incorrect, likely by 20%. Therefore, even the proposed fund set up to reimburse the municipalities is not funded at a high enough level in the legislation.
- Even if that estimate were corrected, it demonstrates the lack of information on which this proposal was based. The Tax Commission does not know how much revenue is collected each year from grocery taxes. The estimate is \$345 million for the current fiscal year, but that is nothing more than an educated guess. If that estimate is wrong, all the estimates on the impact on municipalities and the state General

Fund are wrong, and the negative impact will likely be more than what was described to Legislators.

*And not as much revenue from a higher cigarette tax than was thought...*

- The Tax Commission estimate of potential new revenue from an increased tax on cigarettes did not take into account the reduction in smoking which is occurring both in Mississippi and across the nation. This will further reduce the new revenue from this higher tax.
- Increasing the cigarette tax by 455% would give Mississippi the highest cigarette tax of all our surrounding states. This would inevitably lead to bootlegging of cigarettes across state lines and would entice more people to purchase cigarettes from the Choctaws, which are not taxable. The Tax Commission estimate on potential new revenue from an increased tax on cigarettes did not take either of these likely effects into account, and both would reduce the new revenue from the higher tax.

Once you look behind the headlines and quick-hitting quotes by some of SB 2310's supporters, you begin to see the bill sends precisely the wrong message at the wrong time.